

## Applying the Concepts

### Chapters 8, 9 & 10

#### 1. Federal Reserve regulation.

Discusses briefly the measures applied by the Fed related to the innovations on the mortgage market during the recent real Estate bubble.

#### 2. US financial sector

What was the structure of the US financial sector when G.W.Bush took office in 2001?

#### 3. Rental subsidy.

The owners of rental housing in Andalusia obtain each year a substantial revenue. However, they are still only few who declare such incomes in the income tax to the Tax Administration. By the census data, it is estimated that most rentals are not reported. The demand for rentals in Andalusia (expressed in price “y” in Euros per square meter per month and the amount “x” in thousands of dwellings) is  $y = 111 - 4x$

1. Assuming a supply curve  $y = x - 19$  find the price and the equilibrium quantity.
2. If a subsidy for rental is granted of 2€/month per square meter, find which will be the new price and the number of rented dwellings.
3. What portion of the subsidy has gone to the pockets of the landlords due to a rise in prices?
4. The Finance Minister hopes that with the subsidies for rent, landlords are forced to declare their income (since it is a requirement for the tenant to receive the subsidy), and this effect brings to the surface a much more elastic supply:  $y = X/10 + 4.4$ . Find then what portion of the subsidy has gone to the pockets of the landlords by rising prices, and what amount of dwellings are rented now (after setting the subsidy).

#### 4. Moving and Consumer Surplus

The demand for housing rent in a little village in Aragonia is  $x = 6.000 - 600y$ , where “x” is the square meter of housing demanded and “y” is the price expressed in Euros per square meter per month.

a. Draw the demand curve for housing. .

b. Given a market equilibrium price of 5, find the square meter of housing “x” rented in the village.

c. Find the consumer surplus at that price.

d. Suppose the price drops to 4€ and find the new consumer surplus.

e. If the households don’t move and decide to stay in the same house what would be the consumer surplus?

#### 5. Housing policies

Comparing the housing policies that help low-income households by increasing the supply of housing and those policies that affect the demand, and from the point of view of the price elasticity of housing supply, which type of policies and why, will be better,

(a) If the price elasticity of housing supply is low, relative to the elasticity of demand.

(b) If the price elasticity of housing supply is high, relative to the elasticity of demand. .

#### 6. Housing policies and labor mobility.

How could housing policies improve labor mobility within the European Union?

#### 7. Efficient housing policies.

What is the imputed rent on housing, and how should housing policies remove tax distortions?